

Does Shareholder Voting on Acquisitions Matter?

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Abstract

This article examines the effects of shareholder voting on acquisitions by comparing acquisitions that require acquirer shareholder approval to acquisitions that do not in a large sample of acquisitions announced between 1995 and 2006. I find no evidence that the approval requirement is related to announcement returns, premiums, or deal completion, or that acquisitions are less likely to require shareholder approval when approval is less likely. At the same time, I find that shareholder approval is less likely to be required in acquisitions that can otherwise be completed quickly, and that it prolongs these acquisitions when it is required. These findings call into question the justification for the approval requirement.

I. Introduction

Modern corporate law affords shareholders few opportunities to make decisions for the firm. Apart from annual elections for the board of directors, which seldom result in management changes, the only matters that always require shareholder approval are charter amendments, sales of the firm or substantially all of its assets, and liquidations.

Acquisitions, in contrast, require shareholder approval only in some cases. The New York Stock Exchange, Nasdaq, and the American Stock Exchange require shareholder approval by a majority of the votes cast for acquisitions involving issuance of common stock (or securities convertible or exercisable into common stock) amounting to 20% of the outstanding common stock. In addition, most states require shareholder approval by a majority or a supermajority of the outstanding votes for any acquisition involving the issuance of 20% of the outstanding voting stock if the acquisition is structured as a direct merger of the target with the acquirer, as opposed to an asset purchase, a stock purchase, or a triangular merger of the target with a subsidiary of the acquirer.¹ Most states require approval by a majority or a supermajority of the outstanding votes also if the acquirer amends its charter or if the acquisition is structured as a merger of the acquirer and the target with a new holding company or with its subsidiaries.

¹ Some jurisdictions use a different threshold as a trigger. They include Alaska (0%), District of Columbia (0%), Louisiana (15%), Missouri (0%), New Jersey (40%), Michigan (100%), New York (0%), and Pennsylvania (100%). Florida, Georgia, Idaho, and Washington do not require a vote no matter how large the issuance. Delaware, Illinois, Iowa, Kansas, Louisiana, Michigan, and Oklahoma count only common stock. Iowa, Louisiana, Mississippi, New Jersey, and Pennsylvania require approval by a majority or two-thirds of the votes *cast*. California and Ohio require shareholder approval for crossing the issuance threshold regardless of acquisition structure.

Shareholder voting is meant to block undesirable acquisitions, deter managers from initiating them, and give managers leverage to negotiate better acquisitions.² These benefits depend, however, on shareholder voting behavior. Voting will be ineffective if shareholders merely rubberstamp management decisions.

The non-universal applicability of the approval requirement presents an opportunity to evaluate the effectiveness of shareholder voting by comparing acquisitions that require approval to acquisitions that do not.

Any finding will have important policy implications: if voting either deters managers from announcing acquisitions that will likely be opposed by shareholders or blocks such acquisitions after they are announced, it should be extended to all large acquisitions regardless of their structure or the amount of stock issued; if voting has neither of these effects, it should be reconsidered.

I answer this question using a sample of 2,249 acquisitions announced between 1995 and 2006. My analysis focuses on four related questions. First, I examine whether acquirer announcement returns are higher when shareholder approval is required. If voting is effective and managers predict shareholder reaction, they should announce acquisitions more acceptable to shareholders when approval is required. Second, I examine whether acquirers pay less in acquisitions that need shareholder approval. Here the expectation is that the need to obtain approval will deter managers from announcing overpriced acquisitions. Third, I examine whether acquisitions that need shareholder approval are less likely to be completed. If voting is effective and managers do not predict shareholder

² The need to obtain shareholder approval at a meeting held several weeks after deal signing also provides acquirers with an easy way out of deals that lost their appeal. However, the deal price should reflect the value of this option, making its benefit to the acquirer shareholders dubious.

reaction, poorly received acquisitions that require approval will be blocked. Last, I examine whether acquirers avoid shareholder approval and, if so, whether they do this in acquisitions that shareholders are likely to block.

After controlling for other factors affecting the outcome variables, I find no evidence that the approval requirement is related to announcement returns, premiums, or deal completion, or that acquisitions are less likely to require shareholder approval when a blocking vote should be more likely (potentially defensive acquisitions by actual or rumored targets and acquisitions by acquirers with high public pension fund ownership, high unaffiliated blockholder ownership, or low inside ownership). At the same time, I find that shareholder approval is less likely to be required in acquisitions that can otherwise be completed quickly and that it prolongs these acquisitions by about two months when it is required.

That returns, premiums, and completion rates are not related to the approval requirement is unlikely to reflect the imposition of this requirement only when it is needed: There is no reason to expect the need for shareholder oversight to depend on crossing a specific threshold of stock issuance (the main trigger of the approval requirement) or on having a low amount of unissued stock (the main trigger of the requirement that the approval will be given by a supermajority vote).³ A more likely explanation for the findings is that shareholder voting simply does not constrain acquirer managers, either

³ The London Stock Exchange and the Ireland Stock Exchange require listed firms to obtain shareholder approval for any transaction worth 25% of the acquirer's value.

because other disciplining devices do this more effectively or because collective action problems make shareholders apathetic.⁴

This calls into question the justification for the approval requirement. Not only is it unclear that this requirement brings shareholder voice into the acquisition process, it imposes a cost. In the absence of evidence of benefit to balance this cost, the burden of justifying the approval requirement shifts to those advocating its continued existence. One alternative would be a regime in which large acquisitions required shareholder approval only if shareholders with a threshold voting power so demanded within a limited number of days after the acquisition announcement.

This article makes several contributions to the literature. First, it examines the effectiveness of shareholder voting as a governance device at a key moment in the life of a firm. If shareholder voting fails to serve its purpose in this context, it may fail elsewhere as well. Second, the article sheds light on how legal constraints shape deal structure and the method of payment. The literature on the determinants of the method of payment is extensive (see, for example, Asquith, Bruner, and Mullins (1987), Chang (1998), Fuller, Netter, and Stegemoller (2002) and Slovin, Sushka, and Polonchek (2005)). It nonetheless fails to account for the speed of completion. My findings reveal how dealmakers tailor the method of payment and deal structure to expedite acquisitions. Finally, the article adds to our knowledge of what makes some acquisitions more successful than others. Recent studies find that well-governed firms make better acquisitions (see, for example, Masulis, Wang, and Xie (2007)). One governance variable that seems to play a role is stock

⁴ A newspaper article discussing the aborted acquisition of IMS Health by VNU in 2005 notes: “It is extremely rare for a big company such as VNU to fall afoul of its shareholders in such a dramatic fashion. While shareholders often complain about mergers and acquisitions, those who disapprove usually sell their stock rather than fight.” See Jason Singer, VNU investors maintain pressure, *Wall Street Journal*, November 18, 2005, B2.

ownership by independent, long-term investors (Qiu (2006), Chen, Harford, and Li (2007)). My findings suggest that, to the extent that these investors affect acquisitions, they do so by means other than voting on them.

The article proceeds as follows. Part II reviews the related literature. Part III describes the data. Part IV discusses the methodology and the results. Part V concludes.

II. Related Literature

The efficacy of shareholder voting on acquisitions relates to two strands in the corporate governance literature. The first strand examines the agency costs that distort acquisition decisions. Roll (1986) argues that managers are prone to overpaying or otherwise making ill-advised acquisitions because they derive psychic and financial gains from expanding their firms. Avery, Chevalier, and Schaefer (1998), Bliss and Rosen (2001), Grinstein and Hribar (2004), Bebchuk and Grinstein (2007), and Harford and Li (2007) find that managers gain financially from acquisitions regardless of their effect on shareholder value. Harford (1999), Datta, Iskandar-Datta, and Raman (2001), Malmendier and Tate (2005, 2008), and Moeller, Schlingeman, and Stulz (2005) find that these distorted incentives cause losses to acquirer shareholders.

The losses to acquirer shareholders stand in contrast to the gains to target shareholders. While studies typically find zero or negative announcement returns to the former, they find large and positive returns to the latter. Dent (1986) attributes this difference to an imbalance in the protection afforded to the two groups of shareholders. Target shareholders are well protected: State law enables them to veto a sale or to sue the board for mishandling it, and federal law shelters them from coercive tender offers. Acquirer shareholders, by contrast, are far less protected: State law allows most

acquisitions to be completed without shareholder approval or liability risk, and federal law protects acquirer shareholders only when they vote.

A second, related strand in the literature is the debate on the efficacy of voting as a solution to agency costs in the firm. Recent commentary examines whether the increase in stock ownership by institutions warrants greater reliance on voting. Bebchuk (2005) argues for facilitating proxy fights to replace directors and allowing shareholders to initiate governance changes. Bainbridge (2006) argues that the limited shareholder voting regime ought to be preserved. Strine (2006) proposes to expand shareholder influence over director elections but not over other matters.

The merit of these proposals depends on whether shareholders in general and institutional investors in particular use their voting rights to protect their interests. Several studies suggest that they do. Brickley, Lease, and Smith (1994) and Bethel and Gillan (2002) find that institutional investors are more likely than other shareholders to vote against management. Gordon and Pound (1993) find that shareholder proposals on governance receive greater support when they are sponsored by large institutional investors or active dissidents, when they restore shareholder voting rights, or when they target poorly performing or poorly governed firms, when ownership is concentrated among institutional investors or unaffiliated blockholders, and when ownership by directors and officers is small. Morgan and Poulsen (2001) and Bethel and Gillan (2002) find that shareholders are less likely to approve dilutive equity-based compensation plans. Balachandran, Joos, and Weber (2004) find that poorly performing firms and poorly governed firms tend to adopt equity-based compensation plans without shareholder approval and subsequently perform worse than firms that adopt plans with approval.

Arena and Ferris (2007) similarly find that poorly performing firms and poorly governed firms tend to appoint representatives of private investors to the board without shareholder approval and that the market reacts less favorably to their private offering announcement.

The writing on voting by acquirer shareholders is part of this literature. Legal commentators disagree on the desirability of shareholder approval of acquisitions. Coffee (1984) proposes that all acquisitions require shareholder approval. Dent (1986) argues that requiring approval would deter bidders by delaying acquisitions, and that collective action problems would render the approval meaningless. Black (1989) suggests requiring acquirer shareholder approval only when the need for approval by target shareholders would delay the acquisition anyway.

In light of the importance of acquisitions to firm value, it is surprising how little evidence exists on acquirer shareholder voting.

Hamermesh (2003) reports a negative relation between acquisition premiums and the presence of acquirer shareholder voting in 97 stock-for-stock mergers. The study cautions that the small sample size and its limited chronological coverage render its findings inconclusive. Moreover, the study does not describe the criteria for including acquisitions in the sample and controls for only two other factors affecting premiums: the percentage of directors of the combined firm who were directors or officers of the target and the ratio of target revenue to acquirer revenue.

Burch, Morgan, and Wolf (2004) examine 209 acquisitions that were brought to shareholder approval. Almost all of the acquisitions involved only stock consideration. They find that the percentage of favorable votes cast is positively related to acquirer returns and transaction characteristics, but that all of the acquisitions were approved with

minimal opposition. A possible interpretation of this finding is that acquirers are concerned mainly with collecting enough shareholder proxies to satisfy quorum requirements (and, in some cases, supermajority requirements), rather than with overcoming opposition, and stop soliciting proxies once they have enough votes.

Finally, Slovin, Sushka, and Polonchek (2005) study the relation between the method of payment and returns in acquisitions of divisions. They do not find different acquirer returns in the 32 acquisitions (out of 311 in their sample) that required shareholder approval. This result could be an artifact of sample size.

III. Data

I collect from Thomson Reuters's SDC Platinum database (SDC) information on successful and unsuccessful acquisitions of U.S. public and private firms by U.S. public firms containing common stock or convertible stock in the consideration and announced between January 1, 1995 and December 31, 2006. Acquisitions are included in my sample when the acquirer seeks to increase its stake in the target from 20% or less to 50% or more because they transfer control and accordingly involve payment of a premium. Over 99% of the acquirers in the resulting sample seek 100% ownership. Acquisitions without common stock consideration are excluded because prior literature finds that the market treats them very differently and because they almost never require shareholder approval.

For each transaction, I obtain from SDC the transaction value, the method of payment, the number of shares of common stock issued, the percentage of common stock in the consideration, whether the transaction included a tender offer, whether the transaction was contested by another bidder, the announcement date, and the completion date or the withdrawal date. I also obtain from SDC the primary Standard Industry

Classification (SIC) 4-digit code and the Committee on Uniform Securities Identification Procedures (CUSIP) 6-character code for all firms.

I add acquirer stock data from University of Chicago's Center for Research in Securities Prices (CRSP), accounting data from Standard & Poor's Compustat database, institutional investor ownership from Thomson Reuters's CDA/Spectrum database, and executive compensation data from Standard & Poor's ExecuComp database. Using these additional data, I limit the sample to transactions valued between 15% and 300% of the acquirer's market capitalization one trading day before the announcement in order to focus on acquisitions that are large enough to require shareholder approval, but not so large as to constitute a sale of the acquirer to the target.⁵

Next I search for each acquisition in acquirer registration statements, proxy statements, current reports, and periodic reports on the Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval website (EDGAR). I exclude acquisitions without a definitive agreement. In the remaining 2,249 acquisitions, I fill from acquirer filings missing information on the number of shares of common stock issued and the outcome of pending acquisitions. I also check whether the acquisition required shareholder approval, whether it was meant to qualify as a tax-free reorganization, and whether the acquirer registered the stock to be issued. For acquisitions that required shareholder approval, I record the required majority and, if more than a majority of the votes cast (the requirement under stock exchange listing rules) was required, the reason for the higher requirement. I also record the percentage of votes held by shareholders supporting the acquisition. This figure is taken from the deal proxy statement and includes

⁵ The results remain qualitatively the same, though some coefficients lose significance, when I exclude transactions exceeding in value the acquirer's market capitalization.

the votes of directors, officers, and other shareholders who agreed to vote in favor of the acquisition or were otherwise expected to support it.

In addition to deal information, I collect from acquirer proxy statements the most recent ownership information available before the acquisition was completed or, if the acquisition was withdrawn, before it was announced. I classify shareholders under three categories: directors and officers, affiliated 5% blockholders (the target, or shareholders with family- or business ties to the acquirer or to any of its directors and officers), and unaffiliated 5% blockholders. For each category, I calculate voting power as the number of votes a shareholder holds divided by the number of outstanding votes, taking into account shares with multiple votes. I count securities with multiple holders once and, when the holders belong to different shareholder categories, I assign the votes to the category most likely to support the acquisition: directors and officers first, affiliated blockholders next, and unaffiliated blockholders last.

Finally, I conduct two media searches. First, following Louis (2004), I search newspapers for mentions of actual or potential bids for each acquirer within two years before the announcement. Acquisitions announced by acquirers with this history can be viewed as efforts to stave off bids and be opposed by shareholders. I record the date of the most recent mention and whether it is associated with an actual bid or a potential one.⁶ Second, I search press releases, newspapers, and wires for mentions of a Request for Additional Information (also known as a “second request”) issued by the government under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 in connection with the

⁶ Specifically, I search the newspapers Wall Street Journal, Washington Post, Los Angeles Times, Boston Globe, Chicago Tribune, Houston Chronicle, San Francisco Chronicle, USA Today, Financial Times in the “Major Newspapers” file in Lexis Reed Elsevier’s LexisNexis database for “[Acquirer name] /P acqu! merg! buy! bid! rumor! target play candidate takeover! & DA (AFT [Announcement date – 2 years] & BEF [Announcement date]).”

acquisition.⁷ A second request indicates a close review of the transaction by the antitrust authorities and a likely delay in its completion.

Table 1 presents the distribution of acquisitions by industry. The industries most represented in the sample are services, manufacturing, banking, and trade. Public target acquisitions tend to require acquirer shareholder approval in every industry. In total, 806 public target acquisitions require approval and 245 do not. By contrast, private target acquisitions tend not to require approval in most industries. Other than in banking, 750 private target acquisitions do not require approval and 338 do. Of private bank acquisitions, 54 acquisitions do not require approval and 56 do.

Table 2 summarizes deal characteristics. As can be expected, deal value and the ratio of deal value to acquirer capitalization are, on average, higher in acquisitions requiring shareholder approval. In addition, these acquisitions more often involve only stock consideration and otherwise involve, on average, a higher percent of stock in the consideration. Consistently, part-stock acquisitions requiring shareholder approval are more likely to be tax free. Acquirer capitalization is, on average, higher in acquisitions requiring shareholder approval, which suggests that large acquirers make larger acquisitions relative to their size and use stock as consideration more than small acquirers despite the shareholder approval requirement this entails. Acquisitions requiring shareholder approval are more likely to involve public targets and payment in registered stock and are less likely to involve tender offers. On average, these acquisitions also take longer to complete and are associated with lower announcement returns and lower

⁷ Specifically, I search the Company Press Releases file and the U.S. Newspapers and Wires file in LexisNexis for (“second request” or “request for additional information”) and (doj or ftc or hart or hsr or “department of justice” or “federal trade commission”), and repeat this search in Dow Jones’s Factiva database.

premiums. Finally, acquisitions requiring approval are more likely to be contested by antitrust regulators or by a second bidder, although both characteristics may reflect the larger size of these acquisitions and, in the case of second bidder contests, their propensity to involve public targets. All but one of these differences are significant at the 1% level.

Of 2,249 transactions in the sample, 603 required shareholder approval by a majority or a supermajority of the votes cast (“simple majority”), and 534 and 93, respectively, required approval by a majority or a supermajority of the outstanding votes outstanding (together, “absolute majority”). Of the transactions that required approval by an absolute majority, 187 were conditional on amending the charter to authorize more stock, 103 were conditional on another charter amendment, 75 were by acquirers incorporated in California or Ohio, 283 were direct mergers of the target into the acquirer, and 64 were mergers of the acquirer and the target with a new holding company or with its subsidiaries.⁸ State law typically requires approval by an absolute majority in such instances. 74 acquisitions required absolute majority approval for other reasons.

IV. Analysis

I use four methods to examine whether shareholder voting on acquisitions disciplines management and whether it delays acquisitions. First, I test whether acquisitions requiring shareholder approval are associated with higher announcement returns. Second, I test whether these acquisitions involve lower premiums. Third, I test

⁸ 154 of these direct mergers were among banks, defined as firms whose primary 2-digit SIC code is 60 (depository institutions) or whose primary 4-digit SIC code is 6712 (offices of bank holding companies). Direct mergers constitute 61% of bank acquisitions in the sample that needed shareholder approval, compared to 15% of non-bank acquisitions that needed this approval. The difference is starker in acquisitions that did not require shareholder approval, where direct mergers constitute 60% of bank acquisitions and 3% of non-bank acquisitions.

whether these acquisitions are less likely to be completed. Finally, I test whether acquirers avoid shareholder approval and, if they do, when.

1. Announcement Returns When Voting Is Required

One measure of the effectiveness of shareholder voting as a constraint on managers is the relation between the voting requirement and announcement returns.⁹ If managers expect shareholders to vote down unwelcome acquisitions, they will announce acquisitions that require approval only if they anticipate support. Acquisitions not requiring shareholder approval, in contrast, will be announced regardless of whether opposition is anticipated. Consequently, announcement returns, which measure shareholder reaction to the acquisition, should be higher when approval is required.

To test this hypothesis, I regress the acquirer's cumulative abnormal returns over the three trading days around the announcement estimated as in Schwert (1996) on an indicator for whether shareholder approval was required and a number of controls: the portion of common stock issued in the deal, a private target indicator, an interaction between these two variables, a large acquirer indicator (defined as in Moeller, Schlingemann, and Stulz (2004)), an indicator for a recently targeted acquirer, a diversifying acquisition indicator, and year indicators. In an alternative specification, I replace the portion of common stock issued in the deal and its interaction with the private

⁹ Announcement returns measure the effectiveness of shareholder voting better than long-term returns because long-term returns reflect information that becomes public only after shareholders have voted. Qiu (2006) and Chen, Harford, and Li (2007) find that concentrated ownership by independent, long-term institutional investors is unrelated to announcement acquirer returns but is positively related to post-acquisition returns and performance. While this finding supports the hypothesis that these institutional investors monitor management after the acquisition, it does not support the hypothesis that they monitor acquisition decisions.

target indicator with the portion of consideration paid in stock and a corresponding interaction.

The controls are motivated by prior literature. Chang (1998), Fuller, Netter, and Stegemoller (2002), and Officer (2007) find higher acquirer returns for private target acquisitions. Asquith, Bruner, and Mullins (1987) and Fuller, Netter, and Stegemoller (2002) find that acquirer returns decrease in the portion of acquirer stock issued in public target acquisitions. Chang (1998), Fuller, Netter, and Stegemoller (2002) and Slovin, Sushka, and Polonchek (2005) find that acquirer returns increase in the portion of acquirer stock issued in private target acquisitions. Moeller, Schlingemann, and Stulz (2004) find that large acquirers experience lower returns. Morck, Shleifer, and Vishny (1990), Maquieira, Megginson, and Nail (1998), and DeLong (2001) find that diversifying acquisitions are associated with lower acquirer returns. Louis (2004) finds that bank acquirers experience lower returns if they were targets of actual or rumored bids before the acquisition announcement.

Table 3 presents the results. Columns (1) to (3), respectively, report results for the baseline specification using the full sample, a sample of acquisitions in which only part of the consideration was in stock, and a sample in which, in addition, the ratio of the deal value to the acquirer market capitalization one way before the announcement was higher than 0.2 and lower than 0.5. Column (4) reports results for the full sample when replacing the portion of acquirer stock issued with the percentage of the consideration paid in stock. In all four columns, shareholder approval is not significantly related to returns. In contrast, most of the controls are significant and have the predicted signs. Consistent with prior studies, private target acquisitions are associated with higher returns, large acquirers

experience lower returns, and the use of stock as consideration is negatively related to returns in public target acquisitions and positively related to returns in private target acquisitions. Somewhat surprisingly, diversifying acquisitions are associated with higher returns. A possible explanation is that diversifying acquisitions tend to involve private targets (the correlation is significant at the 1% level), causing the coefficient estimate of diversifying acquisitions to reflect part of the higher returns associated with private target acquisitions

Next, I estimate a selection model to address the possibility that the insignificance of the vote indicator is due to an omitted variable that is related to the voting requirement and to returns in opposite directions. It is hard to imagine such a variable. The amount of stock issued in the deal is positively related to the voting requirement and according to prior studies should be negatively related to returns, but it is included in the regression. Shareholder opposition is omitted from the regression if it is not captured by the proxy for defensive acquisitions (an indicator for a recently targeted acquirer), but it should affect voting and returns in the same direction.

Nevertheless, because I cannot rule out the existence of an omitted variable, I estimate a two-stage least squares model in which a variable that should increase the probability that the acquisition will require shareholder approval by an absolute majority but should not affect returns — the ratio of outstanding stock plus the stock needed to pay for the target entirely in stock to the authorized stock (*Used-Up Stock*) — serves as an instrument. The amount of authorized stock in the acquirer's charter is a technical detail that receives no public attention and should have no direct effect on announcement returns. It does, however, affect the likelihood that the acquisition require shareholder approval

because a high ratio of issued stock to authorized stock increases the likelihood that any further stock issuance will require a charter amendment, especially for large acquisitions, and because most states require that charter amendments be approved by an absolute majority of the votes.¹⁰ The results, presented in Column (5), are similar to those in Columns (1) to (3), suggesting that the ordinary least squares estimates are unbiased. In unreported regressions, the results of all of the specifications remain similar when replacing the vote indicator with an indicator for acquisitions requiring approval by an absolute majority.

2. Premiums When Voting Is Required

Another measure of the effectiveness of shareholder voting is acquisition premiums. Shareholders oppose overpayment. If shareholders are prepared to block acquisitions they oppose, acquisitions that require shareholder approval should involve lower premiums because managers will announce these acquisitions only if they expect them to be approved. Managers will not be so constrained when announcing acquisitions that can be completed without shareholder approval.

Premiums have an advantage and a disadvantage compared to acquirer returns as a measure of the effectiveness of shareholder voting. On the one hand, premiums can reflect price differences that are too small to affect acquirer returns. On the other hand, premiums do not reflect the effectiveness of shareholder voting in blocking acquisitions for reasons

¹⁰ The mean of *Used-Up Stock* is 0.49 in acquisitions that required no shareholder approval, 0.55 in acquisitions that required approval by a simple majority, and 0.72 in acquisitions that required approval by an absolute majority. The differences between these means are significant at the 1% level. Of acquisitions that required shareholder approval, the mean of *Used-Up Stock* was 0.53 where shareholders were not asked to approve a charter amendment authorizing more stock, 0.82 where this approval was sought without being a condition to the deal, and 0.92 where this approval was a condition to the deal. The differences between these means are significant at the 1% level.

other than overpayment. Consistently, in my sample, returns are not significantly related to premiums in a univariate regression. It is thus worthwhile to see whether the results of using premiums to measure the effectiveness of shareholder voting are different from the results of using returns.

To test whether acquisitions requiring shareholder approval are associated with lower premiums, I estimate for public target acquisitions an ordinary least squares model in which the dependent variable is the premium (calculated as the ratio of deal value to the target's stock market capitalization 30 trading days before the announcement) and the independent variables are the voting indicator and several controls: the percentage of consideration paid in stock, an indicator for a large acquirer, an indicator for a recently targeted acquirer, a proxy for acquirer agency costs (calculated, following Hartzell, Ofek, and Yermack (2004), as the residual from regressing the acquirer chief executive officer's salary and bonus on industry indicators, log of market capitalization, year indicators, and the prior year stock return), industry indicators, and year indicators.

The premium should be negatively related to the percentage of consideration paid in stock because this percentage is a proxy for tax savings. When more of the consideration is paid in stock, the acquisition is more likely to qualify as reorganization and, when it does, the stock portion of the consideration is received tax free. Ayers, Lefanowicz, and Robinson (2003) find that premiums are lower when target shareholders pay less tax in the deal. Moeller, Schlingemann, and Stulz (2004) find that large acquirers pay larger premiums. Excess chief executive officer pay should be positively related to premiums insofar as acquirers with greater agency costs tend to overpay.

Table 4 reports the results. Columns (1) and (2) present results for all public target acquisitions. As predicted, the percentage of consideration paid in stock is negative and significant, suggesting that acquirers pay less when target shareholders save taxes. Column (3) presents similar results for public target acquisitions in which the premium was less than 2. Column (4) presents similar results for tax-free public target acquisitions. Column (5) presents similar results for tax-free public target acquisitions excluding acquisitions only for stock. The similarity is unsurprising given that most of the transactions in the full sample are tax free. The vote indicator is insignificant in all of the columns.

3. Deal Completion When Voting Is Required

Acquirer shareholders almost never vote down acquisitions.¹¹ The earlier findings that announcement returns and premiums are unrelated to the voting requirement do not support the explanation that managers announce acquisitions requiring approval only when they expect shareholder support. This section therefore examines an alternative explanation, namely that managers abandon announced acquisitions that meet with opposition before the vote.¹²

Acquisitions can be withdrawn for a variety of reasons. Some of the more common reasons are the sale of the target to another bidder, failure to obtain regulatory approval, a material adverse change in the business of either party, a drop in the value of the stock portion of the consideration, or rejection of the deal by target shareholders. Acquirer

¹¹ A rare example is Centura Software's failed attempt to acquire InfoSpinner in 1997. Ironically, the initial market reaction to the acquisition was enthusiastic: the five trading day cumulative abnormal returns to Centura's shareholders at announcement were 0.278.

¹² Two examples in my sample are Mack-Cali Realty's termination of its Prentiss Properties acquisition in 2000 and Pharmacoepia's termination of its Eos acquisition in 2002.

shareholder opposition is another reason which, in principle, can drive acquirers to abandon acquisitions even when shareholder approval is not required.

Mitchell and Lehn (1990) find that acquirers whose acquisitions are associated with low announcement returns become takeover targets. Lehn and Zhao (2006) find that managers of acquirers whose acquisitions are associated with low announcement returns are replaced, especially if they complete the acquisition. Paul (2007) finds that acquirers that complete poorly received acquisitions are likely to downsize, experience chief executive turnover, become takeover targets, or go private.

Investigating whether this market discipline affects managerial behavior, Jennings and Mazzeo (1991) find no relation between acquirer announcement returns and deal completion. In contrast, Luo (2005) finds a positive relation between the two, Chen, Harford, and Li (2007) find a positive relation for acquirers with concentrated ownership by long-term and independent institutional investors, and Paul (2007) finds a positive relation for acquirers with independent boards and outside blockholders.

While none of these studies singles out acquisitions that need shareholder approval, Luo (2005) reports that the positive relation between announcement returns and deal completion is present only for acquisitions announced without a definitive agreement. That these acquisitions are not restructured to avoid shareholder approval suggests that management fears market discipline, rather than losing the vote.

To test whether managers respond more strongly to shareholder sentiment when shareholder approval is required, I estimate a probit model in which the dependent variable is an indicator for whether the acquisition was completed and the independent variables are announcement returns, its interaction with the voting indicator, and two control variables

expected to lower the probability of deal completion: an indicator for acquisitions that received a request for additional information (a “second request”) from antitrust regulators and an indicator for acquisitions that were challenged by another bidder. In modified specifications, I replace the vote indicator with an indicator for acquisitions requiring approval by an absolute majority, and replace the announcement returns with an indicator for announcement returns in the bottom quartile of the sample used (returns lower than -0.067).¹³ Shareholders can more easily block acquisitions when the required majority is higher and should be more inclined to do so when announcement returns are very low. In additional specifications, I interact the approval requirement with the low returns indicator and with an indicator for acquisitions in which less than 0.10 of the outstanding votes were held by insiders who committed to support the acquisition or were otherwise expected to support it (roughly half of the acquisitions requiring approval in the sample used).¹⁴

In all specifications, I limit the sample to acquisitions in which a registration statement was filed to avoid selection bias. Private target acquisitions that do not require shareholder approval are often announced after completion and, if announced earlier, the agreements associated with them are often filed after completion. Consequently, as Table 2 indicates, filings related to withdrawn acquisitions tend to involve acquisitions that required shareholder approval. In contrast, acquisitions that require shareholder approval, whether they involve private targets or public ones, are announced promptly after a

¹³ This interaction term equals 1 in 280 deals (22% of the sample used) when the approval indicator refers to any voting requirement, and in 121 deals (10% of the sample used) when it refers to an absolute majority requirement. I do not repeat this with an approval indicator referring only to a supermajority requirement because such an interaction term would equal 1 in only 11 deals.

¹⁴ This interaction term equals 1 in 142 deals (11% of the sample used) when the approval indicator refers to any voting requirement, and in 55 deals (4% of the sample used) when it refers to an absolute majority requirement. I do not repeat this with an approval indicator referring only to a supermajority requirement because such an interaction term would equal 1 in only 5 deals.

definitive agreement is signed and the agreement is filed shortly thereafter. Because the registration statement must be filed before completing the acquisition even if shareholder approval is not required, focusing on acquisitions in which a registration statement was filed ensures that withdrawn acquisitions requiring shareholder approval are not overly represented.

Table 5 presents the results. As expected, the probability of completion is negatively related to the second request indicator and to the second bidder indicator. In contrast, it is not related to any of the interactions of the approval requirement. The latter result persists in unreported regressions in which I omit the second request indicator and the second bidder indicator, or in which I replace the low inside support indicator with an indicator for acquirers in which unaffiliated blockholders hold more than 0.10 of the outstanding votes, or with an indicator for acquirers in which the five largest mutual funds, independent investment advisors, or public pension funds hold more than 0.10 of the outstanding votes. These findings do not support the hypothesis that shareholder approval filters poorly received acquisitions after their announcement.

4. Do Acquirers Avoid Voting?

When no charter amendment is needed for the acquisition, acquirers can avoid the voting requirement by issuing less than 20% of their outstanding common stock as

consideration and paying the balance in cash, debt, or preferred stock.¹⁵ These substitutes are costly. First, the acquirer may have insufficient cash and be too leveraged to borrow. Second, in acquisitions initiated before July 2001, paying any non-stock consideration would preclude the deal from favorable accounting treatment as pooling of interests.¹⁶ Third, cash and debt are taxable and, when they exceed 40% of the consideration, they make the remainder of the consideration taxable. Fourth, a new class of preferred stock is subject to a discount because the price at which it will trade is uncertain.¹⁷

Acquirers may choose to bear these costs for three independent reasons. First, they may wish to avoid voting for fear that shareholders would block the acquisition. Second, they may wish to avoid voting to save time. Voting requires calling a special shareholder meeting, filing a proxy statement and amending it as needed, waiting until the proxy statement is approved, distributing the proxy statement to shareholders, and soliciting proxies to ensure that at least half of the outstanding votes are cast to meet standard

¹⁵ Acquirers sometime choose a middle way by issuing preferred stock that automatically converts, or becomes convertible into, common stock upon acquirer shareholder approval after the deal closes. Examples include Jersey Integrated HealthPractice's attempted acquisition of privately-owned Healthcare Integrated Services in 2000 (which was terminated by the target), Claimsnet.com's acquisition of VHx's assets in 2000 (which was completed 29 days after signing), and Healthwatch's acquisition of Paul Harrison Enterprises in 1998 (which was completed a day after signing). See Healthcare Integrated Systems, Inc. Annual Report on Form 10-K for the fiscal year ending December 31, 2000; Claimsnet.com Inc. Current Report on Form 8-K dated March 23, 2000; Healthwatch, Inc. Current Report on Form 8-K dated October 1, 1998. None of the acquisitions involved the filing of a registration statement. Postponing shareholder approval until after deal completion could have both expedited the acquisition and sidestepped opposition.

¹⁶ In the past, acquirers could account for most all-stock acquisitions as pooling of interests, and thereby report higher earnings after the acquisition. In June 2001, the Financial Accounting Standards Board abolished pooling-of-interest accounting for acquisitions initiated after June 30, 2001. In my sample, 17% of the acquisitions that were announced before June 30, 2001 and did not require shareholder approval qualified for pooling treatment, compared to 45% of the acquisitions that did require approval.

¹⁷ The registration statement filed by El Paso in connection with the Sonat acquisition explains: "In the event that the merger agreement is not approved by El Paso stockholders and the merger is completed under the alternative merger structure, we will attempt to list the depositary shares [of exchangeable voting preferred stock] on the New York Stock Exchange. The New York Stock Exchange does not currently have a market for El Paso depositary shares and there can be no assurance that such a trading market will develop ... Until the depositary shares are fully distributed and an orderly market develops, the prices at which trading in any such shares occurs may fluctuate significantly." See El Paso Energy Corporation Registration Statement on Form S-4 dated April 7, 1999.

quorum requirements. All of these actions delay the acquisition and expose it to competing bids, employee departure, uncertainty among customers and trade partners, financing costs, and adverse market changes. Third, acquirers may wish to limit the stock component of the consideration for reasons unrelated to voting.

From a policy perspective, it is important to ascertain whether acquirers issue less stock to avoid shareholder approval and, if so, why. Only a finding that acquirers avoid shareholder approval to sidestep opposition would be evidence that this approval is meaningful. If acquirers avoid shareholder approval only to expedite the acquisition, the approval requirement would need to be reconsidered because such a finding would suggest that voting creates a cost without serving its purpose.

To determine whether acquirers limit the use of stock to avoid the need for approval and, if so, whether their motivation is sidestepping opposition or saving time, I proceed in two steps. First, I identify instances in which each type of motivation should drive managers to avoid the approval requirement. Second, I test whether this requirement is less common in these instances.

When Might Managers Want to Avoid Voting?

If acquirers avoid shareholder approval to sidestep opposition (the “opposition-avoidance hypothesis”), they will tend to do so when the acquisition is more likely to be blocked. Several factors affect this likelihood. One factor is the majority needed for approval. It is easier to win the support of a simple majority than to win the support of an absolute majority. Another factor is the composition of acquirer shareholders. It can be harder to win approval for a controversial acquisition when fewer shares are held by insiders and more are held by unaffiliated blockholders or institutional investors, who

suffer less from collective action problems than retail investors.¹⁸ A third factor is past performance of the acquirer generally, and the success of past acquisitions particularly. Shareholders can be more critical of acquisitions announced by poor performers. A fourth factor is the availability of an opportunity to sell the acquirer rather than buy the target. Shareholders can be less supportive of an acquisition when the acquirer has been targeted by other bidders.

Conversely, if acquirers avoid shareholder approval to save time (the “time-saving hypothesis”), they will do so when there is no other delaying factor, like the need to obtain target shareholder approval or regulatory approval, and will combine it with other means of expediting the deal, like paying with unregistered stock or structuring the deal as a tender offer. Private target acquisitions that are not subject to acquirer shareholder approval can be completed immediately. Filing an optional registration statement before the deal closes enables the target shareholders to sell the stock they receive as soon as the deal closes but is time consuming. In public target acquisitions, structuring the acquisition as a merger rather than a tender offer causes delay because it requires the target to hold a shareholder meeting.

That regulated target acquisitions, private target acquisitions for registered stock, and public target mergers impose delay regardless of shareholder approval is verifiable. First, I test whether shareholder approval is associated with longer delay when the target is

¹⁸ Matvos and Ostrovsky (2008) find that mutual funds owning both acquirer stock and target stock, which should be less sensitive to wealth transfers between the two firms than investors with stock in only one firm, are more likely to support acquisitions associated with negative acquirer announcement returns. Their study does not cover public pension funds, which are known for shareholder activism, or acquisitions of private targets, in which institutional investors have no holdings. In unreported regressions, the coefficient estimate of the vote indicator remains insignificant when I replace the acquirer’s announcement returns in the regressions reported in Table 3 with the capitalization-weighted average of the acquirer’s announcement returns and the target’s announcement returns.

private and when it is unregulated. To do so, I regress separately for private targets and for public targets the duration of completed acquisitions on regulated industry indicators, the vote indicator, and interactions between the regulated industry indicators and the vote indicator.¹⁹ Initially, I combine all regulated industries. Next, I separate regulated industries into banking, communications, and other regulated industries. The latter category pools transportation, utilities, and insurance because there are not enough observations to separate them in the regressions.

The results, presented in Table 6, confirm the predictions. The first two columns report results for private target acquisitions. The presence of shareholder approval is associated with a large increase (95 days) in deal duration beyond the baseline duration (50 days). Regulated target acquisitions taken as a whole are somewhat less sensitive to shareholder approval. While these acquisitions take 63 more days to complete than other acquisitions, shareholder approval prolongs them only by 60 days ($Vote + All\ Regulated \times Vote$). When regulated industries are separated into different categories, it becomes clear that banks are driving the effect. Bank acquisitions take 110 more days to complete than other acquisitions regardless of whether shareholder approval is needed ($Vote + Bank \times Vote$ is insignificant). Acquisitions of communications firms take 56 more days to complete, but are as sensitive to shareholder approval as other acquisitions ($Communications \times Vote$ is insignificant). Other regulated target acquisitions are not significantly different from unregulated target acquisitions.

¹⁹ The shortest deal duration is zero (183 observations, all involving private targets), corresponding to acquisitions announced on the day they were completed. In unreported regressions, I obtain similar results when using $\log(Duration + 1)$ as the dependent variable to address the right skewness of *Duration* (Skewness = 2.16). I add 1 to *Duration* before calculating the log to avoid losing acquisitions announced on the day of their completion.

The second two columns report results for public target acquisitions. The baseline duration (136 days) is about three months longer than in private target acquisitions, reflecting the longer time needed for obtaining target shareholder approval. As in private target acquisitions, regulated target acquisitions and bank acquisitions take significantly longer to complete (49 days and 42 days, respectively). Acquisitions of non-bank regulated targets take even longer (162 days). As predicted, unlike in private target acquisitions, the presence of shareholder approval is not associated with an increase in the duration even when the target is unregulated. Shareholder approval is associated with a longer duration only in acquisitions of communications firms. Given the finding for unregulated target acquisitions, this probably does not reflect a delay caused by voting.²⁰

That bank acquisitions cannot be expedited is also suggested by the fact that private banks are less likely to be acquired for unregistered stock than other private targets. Only 15% of private banks in the sample are acquired for unregistered stock, compared to 75% of private communications firms, 78% of other regulated private firms, and 82% of unregulated private firms. A likely interpretation of this difference is that issuing unregistered stock is less beneficial in bank acquisitions because their duration is fixed. Similarly, only one of the tender offers in the sample is a bank acquisition (although none is an acquisition of any other regulated target).

Next, I test whether shareholder approval is associated with longer delay when the target is acquired for unregistered stock. To do so, I regress the duration of completed

²⁰ To further test whether bank acquisitions take longer to complete independent of shareholder approval, I collected voting dates from 450 acquirer proxy statements and calculated the lag between this date and deal completion. The mean lag was 28 days in bank acquisitions and 15 days in other acquisitions, and the difference was significant at the 1% level in a Wilcoxon test. These findings are notable given that dealmakers seem to anticipate the longer duration of bank acquisitions and set later voting dates in these deals: The mean lag between deal announcement and the voting date is 143 days in bank acquisitions and 130 days in other acquisitions, and the difference is significant at the 1% level in a Wilcoxon test.

acquisitions from announcement to closing on the vote indicator, a private target indicator, an indicator for acquisitions for unregistered stock, interactions between these indicators, an indicator for tender offers, and indicators for acquisitions challenged by antitrust regulators or contested by a second bidder.

Table 7 presents the results. The first column presents the results for the full sample. As predicted, private target acquisitions for unregistered stock without shareholder approval are completed significantly faster than other acquisitions. The delay associated with shareholder approval is insignificant in mergers with public targets (*Vote*) and acquisitions of private targets for registered stock ($Vote + Private \times Vote$), but is significant in private target acquisitions for unregistered stock ($Vote + Private \times Vote + Private \times Unregistered \times Vote$). The latter acquisitions are completed 102 days before other acquisitions if shareholder approval is not required, but no faster than other acquisitions if approval is required. Tender offers are not significantly different from other acquisitions, but, as predicted, acquisitions challenged by antitrust regulators or contested by a second bidder take about two months longer to complete.

Next I distinguish between bank acquisitions and other acquisitions. The second column presents results for a sample of non-bank acquisitions to ensure that the results are not driven by the fact that, as noted earlier, bank acquisitions are more likely than other acquisitions to require shareholder approval, involve payment in registered stock, and be structured as mergers rather than tender offers. The results are similar to those for the full sample, except that tender offers are completed significantly faster than other acquisitions. The third column reports results for a sample of bank acquisitions. Here the delay

associated with shareholder approval in private target acquisitions for unregistered stock ($Vote + Private \times Vote + Private \times Unregistered \times Vote$) is insignificant.

Taken as a whole, the results in Table 7 suggest that voting significantly delays non-bank acquisitions when the consideration is unregistered stock (in the case of private targets) and when the deal is structured as a tender offer (in the case of public targets).²¹ Acquirers intent on saving time are likely to avoid shareholder approval in these acquisitions.

When Do Acquirers Avoid Voting?

I now turn to testing whether acquisitions are structured to avoid the need for approval and, if so, whether the motivation lies in a desire to save time or in a concern that shareholders might vote against the acquisition. Specifically, I estimate a probit model in which the dependent variable is the vote indicator and the independent variables are factors that create a potential for saving time ($Private \times Unregistered$, $Tender$) and factors that make shareholder veto more likely: an indicator for acquirers that had been actual or rumored targets within two years before the acquisition announcement ($Defensive$), the combined voting power of unaffiliated blockholders ($Blockholders$), and the combined voting power of directors, officers, and affiliated blockholders ($Insiders$). In a modified

²¹ In unreported regressions, the difference between bank acquisitions and non-bank acquisitions becomes more pronounced, as does the difference in the explanatory power of the regression when using a log transformation of *Duration* as a dependent variable: *R*-squared increases to 0.36 in non-bank acquisitions, compared to 0.11 in bank acquisitions.

specification, I replace *Insiders* with the portion of acquirer stock held by institutions (*Institutions*), which is available for about two-thirds of the full sample.²²

The time-saving hypothesis predicts that *Private*×*Unregistered* will be negative (because private target acquisitions for unregistered stock can be expedited), *Private*×*Unregistered*×*Bank* will be positive (because bank acquisitions cannot be expedited even when the target is private and it is acquired for unregistered stock), and *Tender* will be negative (because tender offers can be expedited). The opposition-avoidance hypothesis predicts that *Blockholders* and *Institutions* will be negative (because they are more likely than retail investors to oppose management), *Insiders* will be positive (because they are likely to support management) and *Defensive* will be negative (because shareholders favor a sale of the acquirer over the proposed acquisition).

I control for factors that can independently increase the use of stock and incidentally increase the likelihood that shareholder approval will be required: relative deal size, which can make non-stock consideration difficult to finance; acquirer leverage, which Faccio and Masulis (2005) find to be positively related to payment in stock; and the ratio of outstanding stock plus the stock needed to pay for the target entirely in stock to the authorized stock, which reflects the need for a charter amendment authorizing more stock.

A final factor, preannouncement one-year buy-and-hold returns, is predicted to be positively related to the vote indicator both because high returns can earn acquirer management shareholder support and because they can lower the cost of paying in stock. Because it is hard to distinguish between the two explanations, a positive relation between

²² The results do not materially change when, following and Qiu (2006) and Chen, Harford, and Li (2007), I define *Institutions* as the portion of the acquirers outstanding common stock held by the largest institutional investor, all public pension funds, the largest five public pension funds, or the largest public pension fund.

the vote indicator and these returns will not be enough to support the opposition-avoidance hypothesis.

Table 9 presents the marginal effects of each independent variable on the probability that shareholder approval will be required. The results lend support to the view that acquirers avoid shareholder voting in order to save time, but not to the view that acquirers sidestep opposition.

Shareholder approval is less likely to be required in tender offers and in acquisitions of private targets for unregistered stock, and more likely to be required in bank acquisitions, consistent with the time-saving hypothesis.²³ In contrast, shareholder approval is unrelated to the voting power of insiders or unaffiliated blockholders despite their importance in a contested vote. Similarly, while shareholder approval is less likely to be required when the acquirer is an actual or rumored takeover target and when institutional ownership is high, both findings seem not to reflect opposition avoidance because they hold when the sample is limited to acquirers in which insiders hold a majority of the votes and approval is guaranteed. Moreover, there is no evidence that announcement returns are higher or premiums are lower when institutional investors own more stock or when acquisitions are potentially defensive regardless of whether shareholder approval is required.

As expected, the probability that shareholder approval will be required is positively related to relative deal size and acquirer leverage, which make payment in cash costly, and

²³ In unreported regressions in which I add as a control an indicator for private target acquisitions, its coefficient estimate is insignificant, suggesting that when time is of the essence, acquirers of private targets avoid both shareholder approval and stock registration.

to the ratio of used-up stock, which predicts a need to amend the charter. The approval requirement is unrelated to acquirer preannouncement buy-and-hold returns.

V. Conclusion

This article tests whether the need to obtain shareholder approval encourages managers to announce only acquisitions that shareholders are likely to support or prevents acquisitions that meet with shareholder opposition from being completed. It also tests whether the approval requirement delays acquisitions and, if so, whether this matters to dealmakers. I find no support for the former hypothesis, but ample evidence for the latter. The voting requirement is associated neither with higher announcement returns or lower premiums, which could indicate that managers screen acquisitions before announcement because of the vote, nor with lower completion rates, which could indicate that voting blocks acquisitions opposed by shareholders after announcement. But while the desired benefit of the voting requirement is not evident, its cost is. Shareholder voting seems to delay acquisitions substantially, motivating acquirers to avoid the vote by lowering the stock portion of the consideration in order to save time. Doing so is not free. It involves, for example, higher taxes and financing costs.

These findings do not mean that shareholder voting cannot discipline acquirers. Surely it can. But the possibility of shareholders voting down acquisitions must have been too remote to have had a measurable effect on acquisitions during my sample period. This could change in the future if pension funds or hedge funds become active shareholders in this area as they have in others. At present, however, the evidence casts doubt on the usefulness of requiring shareholder approval for acquisitions regardless of how weak shareholder interest in voting. One possible approach would be to subject these

acquisitions to shareholder approval only when shareholders so demand. Exploring this approach is a fruitful area for future research.

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Insert Table 1: Distribution of Acquisitions by Industry, Voting, and Acquirer Type

Table 2: Summary Statistics

This table reports mean and median values of transaction characteristics for acquisitions requiring shareholder approval and acquisitions not requiring shareholder approval. Acquirer capitalization is the stock market capitalization of the acquirer one day before the announcement. Deal value is the value of consideration reported by SDC. Size is the ratio of the deal value to acquirer capitalization one trading day before the announcement. All-stock is an indicator for payment only in common stock. Percent Stock is the percentage of acquirer common stock of the consideration. Tax-free is an indicator for tax-free acquisitions. Registered is an indicator for acquisitions involving the issuance of registered stock. Duration is deal duration from announcement to closing. Completed is an indicator for completed acquisitions. Tender is an indicator for tender offers. Private is an indicator for private targets. CAR is the cumulative abnormal returns to acquirer shareholders in the 3-trading day window around the announcement date. Premium is the ratio of deal value to target stock market capitalization. BHAR is the buy-and-hold return in the year ending on the announcement day. Second Bidder is an indicator for acquisitions challenged by a second bidder. Second Request is an indicator for acquisitions in which a request for additional information was issued by antitrust regulators. Asterisks indicate the significance of the difference between means of the two samples in a t-test for interval variables and a chi-square test for indicator variables, and the significance of the difference between the medians of the two samples in a Wilcoxon test. Significance (p-value): * 10%, ** 5%, *** 1%.

Variable	No Vote			Vote		
	N	Mean	Median	N	Mean	Median
Acquirer Capitalization	1,049	1274.43	147.35	1,200	2,731.01***	294.50***
Deal Value	1,049	362.89	44.20	1,200	1,681.85***	161.73***
Size (Relative)	1,049	0.39	0.26	1,200	0.74***	0.59***
All-Stock	1,049	0.22	0.00	1,200	0.61***	1.00***
Percent Stock in Part-Stock Deals	676	42.67	41.45	426	67.33***	68.42***
Tax Free in Part-Stock Deals	826	0.45	0.00	468	0.90***	1.00***
Registered	1,049	0.29	0.00	1,200	0.81***	1.00***
Duration	1,049	82.06	57.00	1,088	158.62***	141.50***
Completed	1,049	0.92	1.00	1,200	0.88***	1.00
Tender	1,049	0.012	0.00	1,200	0.005*	0.00
Private Target	1,049	0.77	1.00	1,200	0.33***	0.00***
CAR	1,049	0.03	0.01	1,200	0.00***	-0.02***
Premium	192	1.89	1.64	707	1.67**	1.43***
BHAR	1,017	0.16	-0.02	1,178	0.23	0.02
Second Bidder	1,049	0.01	0.00	1,200	0.04***	0.00
Second Request	1,049	0.01	0.00	1,200	0.05***	0.00

Table 3: The Effect of Voting on Acquirer Returns

This table reports coefficient estimates and, in parentheses, significance levels (p-values) from estimating an ordinary least squares model (columns (1) to (4)) and a two stage least squares model (column (5)) in which the dependent variable is the cumulative abnormal returns to acquirer shareholders in the three trading day window around the announcement date. Vote is an indicator for acquisitions that need shareholder approval. Portion is the portion of acquirer outstanding common stock issued in the acquisition. Percent Stock is the percentage of acquirer common stock in the consideration. Private is an indicator for private targets. Large is an indicator for acquirers whose market capitalization one trading day before the announcement is in the top quartile of firms listed on the New York Stock Exchange on the last trading day of the announcement year. Defensive is an indicator for acquirers that were mentioned in the financial press as actual or rumored targets within two years before the announcement. Diversify is an indicator for targets whose two-digit SIC code is different from the acquirer's. Announcement year indicators and industry indicators based on 2-digit SIC code of the target are included in the regressions but not reported. Column (2) reports results for acquisitions in which Portion is lower than 1. Column (3) reports results for acquisitions in which Portion is lower than 1 and the ratio of the deal value to the acquirer's market capitalization one trading day before the announcement is higher than 0.2 and lower than 0.5. In column (5), Vote is instrumented by the ratio of (i) the sum of the acquirer's outstanding shares plus and the ratio of the deal value to the price of each share of the acquirer to (ii) the acquirer's authorized shares, where all variables are recorded one trading day before the announcement. Estimates are based on Huber-White robust standard errors. Significance (p-value): * 10%, ** 5%, *** 1%.

	(1)	(2)	(3)	(4)	(5)
Vote	0.01 (0.69)	0.01 (0.54)	-0.00 (0.82)	0.02 (0.17)	-0.13 (0.15)
Portion	-0.01 (0.49)	-0.05** (0.03)	-0.08** (0.05)		-0.03 (0.24)
Percent Stock				-0.01*** (0.00)	
Private	0.06*** (0.00)	0.04*** (0.01)	0.06*** (0.00)	0.02 (0.14)	-0.01 (0.99)
Private×Portion	0.06*** (0.00)	0.11* (0.07)	0.04 (0.49)		0.09*** (0.01)
Private×Percent Stock				0.00*** (0.00)	
Large	-0.04*** (0.00)	-0.03*** (0.00)	-0.01 (0.20)	-0.04*** (0.00)	-0.03*** (0.00)
Defensive	-0.00 (0.88)	0.00 (0.91)	-0.01 (0.87)	-0.01 (0.89)	-0.02 (0.32)
Diversify	0.02** (0.04)	0.01 (0.22)	0.01 (0.65)	0.03** (0.03)	0.02* (0.08)
Intercept	-0.03 (0.63)	0.04 (0.55)	0.00 (0.97)	0.07 (0.37)	0.12 (0.09)
N	2,249	2,072	960	2,057	2,217
R-squared	0.10	0.09	0.17	0.10	0.03

Table 4: The Effect of Voting on Premiums

This table reports coefficient estimates and, in parentheses, significance levels (p-values) from estimating an ordinary least squares model in which the dependent variable is the ratio of deal value to target stock market capitalization. Vote is an indicator for acquisitions that need shareholder approval. Percent Stock is the percentage of acquirer common stock in the consideration. Large is an indicator for acquirers whose market capitalization one trading day before the announcement is in the top quartile of firms listed on the New York Stock Exchange on the last trading day of the announcement year. Defensive is an indicator for acquirers that were mentioned in the financial press as actual or rumored targets within two years before the announcement. Excess pay is the residual from regressing the acquirer chief executive officer's salary and bonus on two-digit SIC industry indicator variables, the log of market capitalization, year indicators, and the prior year stock return. Announcement year indicators and industry indicators based on 2-digit SIC code of the target are included in the regressions but not reported. Columns (1) and (2) report results for all public target acquisitions. Column (3) reports results for acquisitions in which Premium is lower than 2. Column (4) reports the results for tax-free acquisitions and Column (5) reports results for tax-free acquisitions in which Percent Stock was less than 100. Estimates are based on Huber-White robust standard errors. Significance (p-value): * 10%, ** 5%, *** 1%.

	(1)	(2)	(3)	(4)	(5)
Vote	-0.06 (0.61)	-0.14 (0.23)	-0.02 (0.57)	-0.12 (0.34)	-0.11 (0.59)
Percent Stock	-0.01*** (0.00)	-0.01*** (0.00)	-0.00*** (0.00)	-0.01*** (0.00)	-0.2*** (0.00)
Large	-0.12 (0.36)	-0.10 (0.73)	0.13*** (0.00)	-0.08 (0.80)	-0.21 (0.67)
Defensive		-0.16* (0.07)		-0.12 (0.16)	-0.09 (0.80)
Excess Pay		0.00 (0.33)		0.00 (0.25)	0.00 (0.25)
Intercept	2.72*** (0.00)	2.32*** (0.00)	1.56*** (0.00)	2.47*** (0.00)	2.56** (0.01)
N	866	385	681	371	143
R-squared	0.17	0.38	0.18	0.39	0.51

Table 6: The Effect of Voting on Deal Duration

This table reports coefficient estimates and, in parentheses, the significance (p-value) from estimating an ordinary least squares model in which the dependent variable is deal duration from announcement to closing. All regulated is an indicator for acquisitions whose primary 2-digit SIC code is 40, 44, 45, 47, 48, 49, 60, 63, or 64, or whose primary 4-digit SIC code is 6712. Bank is an indicator for acquisitions of targets whose primary 2-digit SIC code is 60 or whose primary 4-digit SIC code is 6712. Communications is an indicator for acquisitions of targets whose primary 2-digit SIC code is 48. Other regulated is an indicator for acquisitions of targets whose primary 2-digit SIC code is 40, 44, 45, 47, 49, 63, or 64 (railroad transportation, water transportation, transportation by air, transportation services, electric, gas, and sanitary services, insurance carriers, and insurance agents, brokers, and service). Vote is an indicator for acquisitions that need shareholder approval. Estimates are based on Huber-White robust standard errors. Significance (p-value): * 10%, ** 5%, *** 1%.

	Private Targets		Public Targets	
All Regulated	63.34*** (0.00)		49.40*** (0.00)	
Bank		109.96*** (0.00)		42.64*** (0.00)
Communications		56.41*** (0.00)		7.15 (0.77)
Other Regulated		2.43 (0.74)		161.52*** (0.00)
Vote	94.76*** (0.00)	94.76*** (0.00)	2.63 (0.82)	2.26 (0.82)
All Regulated×Vote	-34.31*** (0.01)		9.59 (0.48)	
Bank×Vote		-90.58*** (0.00)		-9.32 (0.42)
Communications×Vote		-12.88 (0.63)		72.12* (0.05)
Other Regulated×Vote		35.81 (0.31)		9.13 (0.88)
Intercept	49.99*** (0.00)	49.99*** (0.00)	135.85*** (0.00)	135.85*** (0.00)
N	1,151	1,151	956	956
R-squared	0.30	0.33	0.09	0.19

Table 7: The Effect of Voting on Deal Duration

This table reports coefficient estimates and, in parentheses, the significance (p-value) from estimating an ordinary least squares model in which the dependent variable is deal duration from announcement to closing. The first column presents results for all acquisitions combined. The second column presents results for acquisitions of non-banks. The third column presents results for bank acquisitions. Banks are firms whose primary 2-digit SIC code is 60 or whose primary 4-digit SIC code is 6712. Vote is an indicator for acquisitions that need shareholder approval. Private is an indicator for private targets. Unregistered is an indicator for acquisitions involving the issuance of unregistered stock. Tender is an indicator for tender offers. Second Request is an indicator for acquisitions in which a request for additional information was issued by antitrust regulators. Second Bidder is an indicator for acquisitions challenged by a second bidder. Estimates are based on Huber-White robust standard errors. Significance (p-value): * 10%, ** 5%, *** 1%.

	All Targets	Non-Banks	Banks
Vote	0.57 (0.94)	8.09 (0.43)	-9.70* (0.09)
Private	-3.46 (0.68)	-5.67 (0.67)	-11.17 (0.16)
Private×Vote	4.62 (0.66)	11.88 (0.45)	5.56 (0.60)
Private×Unregistered	-102.14*** (0.00)	-86.31*** (0.00)	-36.23*** (0.01)
Private×Unregistered×Vote	89.50*** (0.00)	74.84*** (0.00)	44.88 (0.24)
Tender	-29.03 (0.34)	-43.13** (0.03)	347.21*** (0.00)
Second Request	59.09*** (0.00)	65.80*** (0.00)	161.21*** (0.00)
Second Bidder	65.26** (0.02)	75.86*** (0.01)	38.21 (0.42)
Intercept	155.25*** (0.00)	140.34*** (0.00)	178.49*** (0.00)
N	2,107	1,688	419
R-squared	0.28	0.28	0.18

Table 8: Predicted Signs of the Determinants of Voting

This table presents the predicted signs of coefficient estimates from a probit model in which the dependent variable is the presence of a shareholder approval requirement. Bank is an indicator for targets whose primary 2-digit SIC code is 60 or whose primary 4-digit SIC code 6712. Private is an indicator for private targets. Unregistered is an indicator for acquisitions involving the issuance of unregistered stock. Tender is an indicator for tender offers. Leverage is the sum of the acquirer's face value of debt before the announcement plus the deal value (including assumed liabilities) divided by the sum of the book value of total assets before the announcement plus the deal value (including assumed liabilities). Used-Up Stock is the ratio of (i) the sum of the acquirer's outstanding shares plus and the ratio of the deal value to the price of each share of the acquirer to (ii) the acquirer's authorized shares, where all variables are recorded one trading day before the announcement. Size is the ratio of the deal value to acquirer capitalization one trading day before the announcement. Defensive is an indicator for acquirers that were actual or rumored targets in the two years preceding the announcement. BHAR is the buy-and-hold return in the year ending on the announcement day. Insiders is the percentage of outstanding votes held by directors, officers, and 5% blockholders affiliated with them. Blockholders is the percentage of outstanding votes held by 5% blockholders unaffiliated with directors or officers. Institutions is the portion of acquirer outstanding common stock held by institutional investors.

Determinant	Sign	Reason
Private×Unregistered	–	Expedite possible
Private×Unregistered×Bank	+	Expedite not possible
Tender	–	Expedite possible
Leverage	+	Hard to finance
Used-Up Stock	+	Need to amend the charter
Size	+	Hard to finance
Defensive	–	Opposition is likely
BHAR	+	Cheap consideration, opposition is unlikely
Insiders	+	Opposition is unlikely
Blockholders	–	Opposition is likely
Institutions	–	Opposition is likely

Table 9: The Determinants of Voting

This table reports marginal effects and, in parentheses, the significance (p-value) from estimating a probit model in which the dependent variable is the presence of a shareholder approval requirement. Bank is an indicator for targets whose primary 2-digit SIC code is 60 or whose primary 4-digit SIC code 6712. Private is an indicator for private targets. Unregistered is an indicator for acquisitions involving the issuance of unregistered stock. Tender is an indicator for tender offers. Leverage is the sum of the acquirer's face value of debt before the announcement plus the deal value (including assumed liabilities) divided by the sum of the book value of total assets before the announcement plus the deal value (including assumed liabilities). Used-Up Stock is the ratio of (i) the sum of the acquirer's outstanding shares plus and the ratio of the deal value to the price of each share of the acquirer to (ii) the acquirer's authorized shares, where all variables are recorded one trading day before the announcement. Size is the ratio of the deal value to acquirer capitalization one trading day before the announcement. Defensive is an indicator for acquirers that were actual or rumored targets in the two years preceding the announcement. BHAR is the buy-and-hold return in the year ending on the announcement day. Insiders is the percentage of outstanding votes held by directors, officers, and 5% blockholders affiliated with them. Blockholders is the percentage of outstanding votes held by 5% blockholders unaffiliated with directors or officers. Institutions is the portion of acquirer outstanding common stock held by institutional investors. Columns (1) and (2) present results for the full sample. Columns (3) and (4) report results for acquisitions in which Insiders exceeds 0.5. Estimates are based on Huber-White robust standard errors. Significance (p-value): * 10%, ** 5%, *** 1%.

	(1)	(2)	(3)	(4)
Private×Unregistered	-0.60*** (0.00)	-0.62*** (0.00)	-0.59*** (0.00)	-0.70*** (0.00)
Private×Unregistered×Bank	0.28*** (0.01)	0.32*** (0.01)		
Tender	-0.50*** (0.00)	-0.51*** (0.00)		
Leverage	0.23*** (0.00)	0.23*** (0.00)	-0.15 (0.36)	0.25 (0.23)
Used-Up Stock	0.13*** (0.00)	0.12** (0.04)	0.44*** (0.00)	0.36** (0.04)
Size	0.43*** (0.00)	0.51*** (0.00)	0.31*** (0.00)	0.52*** (0.00)
Defensive	-0.18*** (0.00)	-0.13*** (0.01)	-0.19* (0.10)	-0.14 (0.33)
BHAR	-0.01 (0.40)	-0.00 (0.85)		
Insiders	-0.08 (0.31)	-0.02 (0.80)		
Blockholders	-0.12 (0.35)			
Institutions		-0.41** (0.03)		-1.69*** (0.00)
N	2,043	1,324	293	146
Pseudo R-squared	0.35	0.34	0.38	0.46